**U.S. House of Representatives**
**Committee on Financial Services**
2129 Rayburn House Office Building
Washington, DC 20515



June 17, 2004

Honorable Alphonso Jackson
Secretary
Department of Housing and Urban Development
451 7th St. SW
Washington, DC 20410

Dear Mr. Secretary:

I am writing to express my deep dismay over HUD's continuing assault on the Section 8 voucher program.

The Bush Administration has so far been unable to get Congress to block grant the voucher program, cutting $1.6 billion from the program, and eviscerating statutory rent protections for low- and extremely-low income families. Regrettably, having been thwarted by Congress' apparent unwillingness to adopt this proposal, HUD seems determined to implement a block grant surreptitiously through administrative actions.

The first step was HUD's April 22nd notice, which ends the longstanding policy of paying housing agencies for their actual voucher costs. HUD has made it clear that it believes housing agencies should cut voucher spending. The April 22nd notice reflects this view. Many housing agencies now face the untenable choice of cutting the number of families served by vouchers or cutting the subsidy being paid to existing voucher holders, or both.

It is now also becoming clear that HUD is pressing the second component of a block grant, the elimination of existing protections for vulnerable low-income families. Beginning with the April 22nd notice, HUD has been urging housing authorities to lower their payment standard. This reduces the voucher subsidy, thereby raising the rent paid by voucher holders. Unfortunately, most housing agencies that are doing this are not doing so in response to rental market changes, but out of desperation because of HUD's cuts.

However, existing HUD rules protect existing voucher holders from such rent increases for a period of between 12 and 24 months. Thus, cutting the payment standard produces limited short-term savings, which may not cover the shortfall created by HUD's cuts.

I have been informed that HUD has, in fact, encouraged housing agencies to maximize cost savings and get around this tenant protection by canceling contracts with landlords and immediately reissuing contracts at a lower payment standard. Apparently, questions were raised whether such actions violated HUD program rules. Thus, HUD convened a meeting last Thursday with housing agency and landlord groups to try to build support for an action HUD said it is considering. Apparently, HUD wants to issue a rule with immediate effect to permit payment standard reductions to take effect immediately for current voucher holders, thus gutting protections against precipitous rent hikes.

It is outrageous that HUD is trying to bend the rules in order to accelerate rent increases on the poorest families in America. It is even more outrageous that this appears to be part of a strategy to put housing agencies in an untenable financial situation, in order to try to induce them to support changes that make it easier to raise rents. And, it is troubling that HUD would pursue this approach without consulting with Congressional leaders on committees with jurisdiction over HUD. I urge HUD to drop this proposal immediately.

Another troubling issue relates to the second main option housing agencies have to cover cuts precipitated by HUD's April 22nd action. Faced with unexpected and retroactive funding cuts almost halfway through the year, many housing agencies are reducing the number of families with vouchers. This takes different forms, including taking vouchers away from existing voucher holders, recalling vouchers issued to families who are now searching for housing, and, more commonly, not reissuing vouchers when they are turned in Ironically, the Administration has thus contributed to the very behavior it has repeatedly excoriated housing agencies for: that is, not using all authorized vouchers.

But, agencies that reduce the number of vouchers in one quarter could have their funding cut the next quarter, as funding is renewed each quarter based on the number of vouchers leased in the prior quarter. This was confirmed in a June 9 HUD Financial Management Center Bulletin. Apparently, HUD then recognized that this would eliminate the financial incentive to cut the number of voucher holders in order to save money. So, just two days later, HUD issued a new bulletin (modifying the June 9 bulletin), stating that funding would not be cut below the voucher utilization rate of last August.

While this may alleviate some funding problems, HUD appears to be breaking the rule in effect since the FY03 appropriations bill that housing agencies are not to be paid for vouchers they don't use. And, HUD's actions are representative of the confusing way it has implemented program changes. It is almost halfway through the year and HUD still appears to be making up the rules as it goes along, changing the policy from day to day.

I am also concerned by your repeated efforts to minimize the deleterious effects of HUD's actions. On May 20th, you appeared before the Financial Services Committee to clarify the way HUD would implement its voucher funding formula for FY 2004 and to announce $150 million in suddenly discovered funds that would be used to replenish reserves for some housing agencies. You testified these actions "*will significantly improve the financial situations for most, if not all, of the agencies. . . and provide the needed assistance to the families that they serve.*"

Your belated and halfhearted actions of May 20 neither significantly improve the financial situations of "most, if not all" housing agencies, nor do they provide funds needed to maintain the program. First, the front-loading of voucher reimbursements is a transparent effort to kick the problem down the road, until later this year. Housing agencies will experience rising costs, while HUD per unit cost reimbursements stay flat.

Second, replenishing reserves is not likely to help maintain the program at existing levels. HUD replenished reserves for less than 20% of all housing agencies. The housing agencies that were replenished only had their reserves restored to around 50% of a one month reserve. Finally, since HUD apparently refuses to subsequently restore reserves used to cover cost increases not paid by HUD, housing agencies will be understandably reluctant to use their precious few reserves to maintain current services.

The proof that HUD's actions did not "solve" the Section 8 crisis is in the continuing stream of press stories about housing agencies reducing the number of families receiving vouchers or raising rents on voucher holders to meet shortfalls.

Finally, I ask you to revise your May 18th Section 8 White Paper, which inaccurately claims that Section 8 "Costs Have Grown Rapidly." The paper claims that the Housing Certificate Fund has risen from 36% of the HUD budget in FY 1998 to 51% of the HUD budget in FY 2004. It concludes that "This rate of increase is unsustainable. Without reform reduction in the number of families served by the voucher program is inevitable."

It is Orwellian for HUD to justify cutting the number of families served by the program right now, by citing the threat that it may be necessary to do so in the future. But more importantly, this White Paper plays fast and loose with the facts in order to reach HUD's preconceived conclusion. In fact, from FY 1998 to 2004, Certificate Fund spending ("outlays") as a percentage of the total HUD budget increased from only 50% to 52%.

It appears that the HUD White Paper arrives at its 36% to 51% claim by citing growth in "Budget Authority." It is entirely inappropriate to characterize such increases as increases in "costs," since costs are measured by spending ("outlays"). Moreover, the increases in Section 8 budget authority are primarily caused by artificial factors (billions of dollars in expiring long-term project-based contracts) that have absolutely no impact on spending. These inconvenient facts were not mentioned by the HUD White Paper. I call on you to revise this report immediately, to correct your inaccurate statements about voucher costs.

In conclusion, I continue to urge you to use the additional $1 billion in the FY 2004 conference report to fully fund all vouchers, by rescinding the April 22nd notice provision that artificially caps voucher costs.

Barney Frank

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